

Machine-Implementable-Project Finance Analysis and Negotiating Tool, Software and System

Cross Reference to Related Applications

This application is a continuation-in-part of my patent application filed on September 29, 2000 under Serial No. 09/676,248 (referred to in the following as "the Parent Application"), the contents of which are herein incorporated by reference and of my Continuation-In-Part application filed on February 14, 2001. under Serial No. 09/781,964. (referred to in the following as the CIP Application), the contents of which are also herein incorporated by reference.

Computer Program Listing Appendix

I attach on CDROM, as a supplement to the first Microfiche Appendix of the Patent Application and the modifications/extensions to my computer program listing submitted with the CIP Application, further modifications/extensions to my computer program listing. I further attach on CDROM flow charts constituting a supplement to the second Microfiche Appendix (Flow Chart and Graph Appendix of the Patent Application) of the Parent Application and to my CIP Application.

Background of the Invention

In the PFANT machine-implementable project finance analysis and negotiating tool described in the Parent Application, general-purpose loans could be used to disburse loan funds according to a manually designed disbursement schedule, or to finance total capital expenditure costs, categories, single contracts or parts thereof. While such financing capabilities are highly useful, financial modelers are sometimes confronted with the need to close a financing gap that

remains after free cash flow from sales, paid in capital or other loan sources has been applied. To date, there exists no project finance software package with an easy-to-use graphical user interface that creates a project preparation, negotiating and testing environment with the standard project finance tools (debt service reserve accounts, sweep, stand-by loans, deferral credits for inputs and off-take fees, input price as a function of sales price) that allows to draw down loans up to their respective maximum amounts according to a ranking freely determined by the user, nor does such a software package exist that permits to use such loans to automatically finance a percentage of a remaining financing gap.

The PFANT tool described in the Parent Application features typical loan financing instruments used in project finance deals. While bank loans are often used to inject loan funds into project companies, it is not uncommon to issue a bond to such end. To date, there exists no project finance software package with an easy-to-use graphical user interface that creates a project preparation, negotiating and testing environment with the standard project finance tools that allows a non-financial modeler to simulate the issuing of a bond.

The PFANT tool described in the Parent Application allows the user to pay dividends on earnings and reduce the cash account accordingly. While this provides general program functionality, in some situations it might be desirable to apply cash in the cash account to close a possible financing gap or to invest surplus cash in interest earning instruments. To date, there exists no project finance software package with an easy to use graphical user interface that creates a project preparation, negotiating and testing environment with the standard project finance tools that allows the use of surplus cash for financing purposes or to deposit such cash in interest earning accounts.

Summary of the Invention

In addition to the capabilities of the PFANT tool, as fully described in the Parent Application in the CIP Application, the upgraded PFANT tool as described herein allows the user to:

- draw down general-purpose loans to close a financing gap up to their respective maximum loan amounts according to a freely selectable and freely changeable ranking;
- use general-purpose loans to close a freely selectable percentage of a financing gap;
- use a standard coupon, zero coupon, revenue or specially customized bond to loan finance a project finance deal;
- use surplus cash sitting in the cash account to close the financing gap of a later period;
- deposit surplus cash sitting in the cash account for a freely selectable period into an interest earning account.

This present invention achieves a major step forward in financial modeling technique.

Brief description of Supplemental Drawings

Figure 1 is a representative flow chart from the general-purpose loan data subset showing the routine used to calculate the maximum available rank position..

Figure 2 is a representative flow chart from the general-purpose loan data subset showing the routine that writes the percentage of the financing gap that is to be closed.

Figures 3 A and 3 B are representative flowchart from the bond data subset showing the routine used to write the bond data subset.

Figure 4 is a representative flowchart from the close the financing gap data subset showing the routine used to apply cash to close a financing gap.

Figure 5 is a representative flow chart from the surplus cash investment data subset showing the routine to deposit surplus cash.

Detailed Description of the Drawings

I am defining below the additional terms used throughout and in a manner which I believe to be generally consistent with normal and customary usage. To the extend there are any discrepancies, the following terminology should control the interpretation of my description.

Furthermore, a more complete description of the routines is found in the CD Appendix containing the supplement to the second Microfiche Appendix (Flow Chart and Graph Appendix of the Parent Application), notwithstanding the fact that the essential disclosure to enable a person of ordinary skill to make and use the invention is fully described hereinbelow.

Supplement to Terminology of the Parent Application

Bond

A bond is a promise to pay the face value of the bond at the maturity date.

Carrying Value

If the face interest rate of a bond exceeds the market interest rate for a comparable bond the bond is normally sold at a premium. The premium is treated as interest received in advance. The premium is used to adjust the bond interest rate and is amortized until bond maturity. The unamortized part of the premium is added in the balance sheet to the face value of the bond to get the current carrying value of the bond. If the face interest rate is below the market interest rate for a comparable bond, the bond is normally sold at a discount. The discount is an interest expense that is amortized over the lifetime of the bond. In

the balance sheet the unamortized discount is subtracted from the face value of the bond to get the current carrying value of the bond.

Coupon Bond

Bond that pays interest, usually in half-yearly installments, as stated on the coupon. The coupon is the periodic interest payment of the bond.

Par Value

The par value is the maturity value of a bond.

Retirement

Repayment of a bond. Retirement often starts after a deferment period.

Revenue Bond

Bond that pays interest if the issuer makes a profit. Unpaid interest is accumulated and paid at interest payment dates once the project company is again profitable.

Sinking Fund Provision

Sinking fund provisions often require the issuer to retire a certain amount of the bond-debt per year. This can be done through calls, decided by lottery or through buy backs of the debt in the bond market.

Zero Coupon Bond

Bond that pays no interest.

I. Supplement to General Overview

The PFANT describes each project finance deal by a set of data that the user enters into a case file spreadsheet. A list of the variables comprising such a set of data was submitted in Table I. of the Parent Application. A list of supplementary data required to accommodate the enhanced general-purpose loan draw-down, bond financing and surplus cash financing and investment capabilities is found in the following supplement to Table I.

SUPPLEMENT TO TABLE I.

Loans

Data	Optional - Required	Default	Impact of Default
Financing Option Rank	Optional	Total Capex	Total Capex or percentage thereof financed.
Percent of Gap	Optional	Total Capex	Total Capex or percentage thereof financed.
Max. Amount	Required with option Rank and Percent of Gap	0 (zero)	Loan not utilized.
Max. Interest Capitalized	Required with option Rank and Percent of Gap	0 (zero)	No interest capitalized.
Rank for draw down	Required with Rank	1 (one) when first loan is entered.	New loans are assigned the next available loan rank in the rank hierarchy.

Reiterations for Percent of Gap Financing

Data	Optional - Required	Default	Impact of Default
Close Gap - Cash flow type	Optional	None	No cash flow targeted to be at least zero.

First Month	Required	1	Cash flow target to be at least zero starts in month 1.
Last Month	Required	1	Cash flow target to be zero ends in month 1.
Number of Iterations	Required	0 (zero)	No iterations.

Bond

Data	Optional - Required	Default	Impact of Default
Bond Currency	Required	Numéraire	Bond is issued in unit of account.
Option Bond Type - Standard Coupon Bond - Zero Coupon Bond - Revenue Bond - Customized Bond	Required	Standard Coupon Bond	Only fixed or user defined interest rates available.
Issue - Project Month	Required	1	Bond issued in Project Month 1.
Maturity - Project Month	Required	5	All bond debt has to be repaid at the end of month

			5.	
Par Value	Required		0 (zero)	Retirement value is mil. No liability generated in balance sheet.
Money received	Optional		Value zero.	No funds mobilized.
User defined Interest on Bond	Optional		Not checked.	Interest is automatically generated.
Interest Rate	Optional		Fixed Interest Rate	Interest Rate is fixed until maturity.
Select Variable Interest Rate	Required with option Variable Interest Rate		Project Default Interest Rate	Default interest Rate applies to the bond.
% of Interest p.a.	Required with Fixed Interest Rate		0 (zero)	No interest paid.
Basis points (+) or (-)	Required with Variable Interest Rate		0	No basis points added or subtracted from reference variable interest rate.
Interest Calculation Method	Required		Standard	Year has 365 days.
No. of Months Interest is paid in Arrears	Required		6	Interest is paid six months in arrears.
Fees	Optional		0	No fees.
First Retirement Month	Required		5	First debt retirement in month 5.

Option Retirement	Selection Required	Automatic Retirement Plan	Debt retirement automatically generated.
Retirement Frequency	Required with Automatic Retirement Plan	6	Debt retired in equal installments every six months.
Reserve Principal	Optional	Not checked	No reserve for retirement of principal generated.
Reserve Interest	Optional	Not checked	No reserve for retirement of interest generated.
User defined Reserve	Optional	Not checked	No user defined reserve.
Interest Rate Reserve	Optional	Fixed Interest Rate Reserve	Interest Rate is fixed until maturity.
Select Variable Interest Rate - Reserve	Required with Variable Interest Rate	Project default variable interest rate.	Project default variable interest rate applies to reserve.
% of Interest p.a. Reserve	Required with Fixed Interest Rate	0 (zero)	Interest is zero.
Basis points (+) or (-) Reserve	Required with Variable Interest Rate	0 (zero)	No basis points added or subtracted from reference variable interest rate.
Interest Calculation Method - Reserve	Required	Standard	Year has 365 days.

Use Surplus Cash to close Financing Gap

Data	Optional - Required	Default	Impact of Default
Surplus Financing Option	Required	Automatic	Percent time series automatically generated.
% of Surplus Cash used for Financing	Required with Automatic Surplus Financing	0 (zero)	No cash applied to close the financing gap.
First Surplus Month	Required	1	Use of surplus cash starts in month 1.
Last Surplus Month	Required	1	Use of surplus cash ends in month 1.

Interest earning Account (IAC)

Data	Optional - Required	Default	Impact of Default
IAC Name	Required	Empty	No access to account.
IAC Currency	Required	Numéraire	Surplus cash is invested in units of numéraire.
Interest option	Required	Fixed Interest Rate	Interest rate is fixed.
Select Variable Interest Rate	Required with option Variable Interest Rate	Default project variable interest rate.	Account uses default project variable interest rate.
Interest p.a. %	Required with fixed interest	0	No interest.

	rate		
Basis points (+) or (-)	Required with variable interest rate.	0	No basis points added to reference variable interest rate.
Interest Calculation Method	Required	Standard	Year has 365 days.
No. of Months Interest is paid in Arrears	Required	6	Interest is paid six months in arrears.
% of Interest capitalized.	Optional	0 (zero)	No interest capitalized.
First Disbursement Month	Required	1	Disbursements into IAC start in month 1.
Last Disbursement Month	Required	1	Disbursements into IAC end in month 1.
Investment Method	Optional	Max. Amount	Cash is first invested in IAC 1 until maximum amount is reached. (Alternative: Percent of Cash Surplus).
Max. Amount	Required with Max. Amount investment method.	0 (zero)	No cash invested in IAC under consideration.
% of Surplus deposited.	Required with Percent of Cash Surplus Investment Method.	0 (zero)	No cash deposited in IAC under consideration.

II. Enhanced General-Purpose Loan Capabilities

The user can use the options Rank and Percent of Financing Gap in addition to the previous financing options (Total Capex, Site, Buildings, Equipment, Pre-Production Costs).

A. Draw down of General-Purpose Loans up to Maximum Amounts according to Rank Position

After having selected an individual loan record into the graphical user interface, the user can select the option Rank. She can enter the Maximum Amount that the PFANT is to disburse under the loan to close a financing gap. She can further enter the Maximum Interest amount up to which interest on the loan is to be capitalized. The Maximum Amount plus the Maximum Interest to be capitalized are equal to the possible maximum total loan utilization. The user can set and change at will the rank position for loans that are ruled by the option Rank. To close a financing gap after other financing means have been exhausted, the PFANT draws down the loan with the lowest rank position (1) first and then calls upon higher ranks in sequential order.

B. Use of General-Purpose Loan to close a Financing Gap

After having called an individual loan record into the graphical user interface, the user can select the option Percent of Gap. She can enter the percentage of the financing gap to be closed with the loan, with the PFANT ensuring that not more than one hundred percent of the gap is closed by the loans governed by the Percent of Gap option. She can include in the financing gap to be closed interest and principal payments, and cause the PFANT to ensure through iterations that one of the following cash flows according to her choice is at least zero during the loan financing period:

Cash flow after Debt Service

Cash flow after DSRA + fill DSRA

Cash flow after Interest on DSRA

Cash flow after Draw-down of Stand-by Construction
Cash flow after Draw-down of Stand-by Repayment
Cash flow after Interest for Stand-by Construction
Cash flow after Interest for Stand-by Repayment
Cash flow after deferred Variable Costs
Cash flow after Interest deferred Variable Costs
Cash flow after deferred Fees
Cash flow for the Month

III. The Bond Data Subset

The bond allows the user to inject loan funds into the project company whenever she wants. The PFANT allows her to select either a standard coupon bond with a fixed interest rate, a zero coupon bond that pays no interest, a revenue bond with a fixed, variable or manually designed interest rate or a customized bond with a fixed, variable or manually designed interest rate. The revenue interest bond pays interest only, if the project company has been profitable since the last interest payment date. If the user wants to establish a different condition for interest payment, she can overrule the built-in interest feature and manually enter payments or formulas directly into the spreadsheet.

The user can tell the PFANT the number of months interest is paid in arrears and the PFANT automatically generates an interest payment date schedule. Interest is paid at interest payment dates only on the debt outstanding at the interest payment date (except if the interest rate is zero as is the case with a zero coupon bond).

(i) Bond-General

The user can choose any project currency as bond currency. Bond transactions are made in the bond currency. If the exchange rate changes, foreign exchange (forex) gains or losses result as

more or less has to be repaid. The program calculates and accounts for forex gains or losses and accommodates the standard (year has 365 days) and the Euro (year has 360 days) interest method.

The user can issue the bond at par (face interest is equal to market interest), under par (face interest is lower than market interest rate) or over par (face interest is higher than market interest rate). If the bond is issued under par, the PFANT treats the discount as an additional interest expense that is amortized over the bonds lifetime. If the bond is issued over par, the PFANT treats the premium as interest earned in advance. The PFANT uses the premium to adjust the bond interest rate and amortizes the premium until bond maturity. The unamortized part of the premium is added in the balance sheet to the face value of the bond to get the current carrying value of the bond. If the face interest rate is below the market interest rate for a comparable bond, the bond is sold at a discount. The discount is treated as an interest expense that is amortized over the lifetime of the bond. The unamortized discount is subtracted from the face value of the bond to get the current carrying value of the bond in the balance sheet.

(ii) Retirement

The user can select the First Retirement and the Maturity month. She can either (1) automatically generate a retirement schedule with the debt retired at par value in equal monthly, quarterly, half-yearly or yearly installments from the First Retirement month to the Maturity month, or (2) she can manually design a retirement schedule by entering for each retirement month the percentage of the par value paid for each par unit of bond retired during that month and by entering the percentage of the total issued par value retired that month. The user can use the manual retirement feature to simulate retirement under par (creating a capital gain), at par or over par (causing a capital loss) to simulate bond market conditions and credit standing of the company in the market place. Further, she can convert outstanding bond debt into equity at any conversion rate.

(iii) Reserve

The user can choose to create a reserve for either retired principal and/or interest payments. The PFANT generates such a reserve in equal monthly step-ups to the next retirement date. The user can overrule the built-in reserve generating mechanism and can manually enter reserve amounts or formulas as she likes. Interest is paid on the amount held as reserve. She can opt for fixed, variable or manual interest rates for the reserve and in case of variable interest rates select one of up to eleven variable interest rates. The program accommodates the standard (year has 365 days) and the Euro (year has 360 days) interest method for interest payments on the reserve.

The PFANT in its present form is limited to one bond. However, the bond module is easily scalable and could be extended to two or more bonds if required by users. The changes to the graphical user interface would be minor.

IV. Use Surplus Cash to close a Financing Gap

The user can generate manually or automatically a percentage time series for cash in the cash account to be used to close a financing gap. The PFANT applies the percentage of cash only if a financing gap exists.

V. Interest earning Accounts/Securities

Interest earning Accounts (IAC) allow the user to deposit cash from the cash account into an interest earning account or security. The program generates deposit and withdrawal schedules. If the project ends before the monies placed in the IAC have been withdrawn, the IAC shows the amount in the account the month before the project ends. Interest payments then turn to zero. The account name identifies an individual record. The user can choose any project currency as account currency. Account

transactions are made in the account currency. The program calculates and accounts for forex gains or losses, and accommodates the standard (year has 365 days) and Euro (year has 360 days) interest methods. The user can opt for a fixed, variable or manual interest rate. In case of a variable interest rate she can select any of the project variable interest rates and add or subtract basis points from the selected variable interest rate as the case may be. In case of a manual interest rate she can enter for each roll-over date an interest rate. The user can select the number of months interest is paid in arrears. The program allows the capitalization of interest up to and including the First Deposit Month.

(i) Deposits into the IAC

The user can:

- a) either set a maximum amount up to which cash can be deposited into the IAC. The PFANT then fills first the IAC entered first and then the IAC entered second, or
- b) determine the share of cash in the cash account that she wants to put into the IAC (e.g. 50%) and
- c) choose the time slice she wants to put cash into the IAC (by setting the schedule for deposits into the account accordingly).

(ii) Withdrawal Methods

(a) Equal Installments

The user is allowed to harmonize payment dates for interest and principal. In case of equal installments, the first withdrawal date of principal is also made an interest payment date. However, if the time between installments and the number of months interest is paid in arrears differ, later interest and principal payment dates will not necessarily coincide.

Deposits into the IAC can be made during the withdrawal phase up to the Month of Last

Withdrawal. The interest can be capitalized up to and including the first withdrawal month.

(b) Annuity

Payments into the IAC can be made until the last withdrawal installment (the annuity is recalculated). Interest can be capitalized up to and including the first withdrawal month.

The user can freely choose the number of months for interest to be paid in arrears during the cash deposit phase. Starting with the first withdrawal, however, principal and interest payment dates coincide.

The following description discloses an excerpt of a revised Chapter 6 (Loans, taking into account the increased draw-down up to a maximum according to rank position and close percentage financing gap capabilities) of the proposed user's guide. The description further discloses the new Chapters Bond and Cash Account of the proposed user's guide.

CHAPTER 6 LOAN - Excerpt - Rank and Percent of Gap

II.1.3. Disbursement and Repayment Methods, Interest Rate Types - What can I combine?

II.1.3.1. Combinations

Allowed Combinations		
Disbursement Method	Repayment Method	Interest Types
Automatic Disbursement Total Capex Site Buildings Equipment Pre-Production Ranking Percent of Gap	Equal Installments	- Fixed Interest Rate Variable Interest Rate Manual Interest Rate
	Annuity	- Fixed Interest Rate
Manual Disbursement	Equal Installments	- Fixed Interest Rate Variable Interest Rate Manual Interest Rate
	Annuity	- Fixed Interest Rate
	Manual Repayment (Capitalization of interest only with fixed or manual interest rate)	- Fixed Interest Rate Variable Interest Rate Manual Interest Rate

While a manually created disbursement schedule can be combined with all three repayment methods (equal installments, annuity or manual repayment plan), an automatic disbursement schedule is restricted to equal installments and annuities. Why? If the contract expenditure that you finance under an automatically created disbursement schedule changes (either because costs increase or the exchange rate changes) your loan disbursements will automatically vary with that change. This can be very handy and can save you a lot of retyping. However, if you have designed your repayments manually, the program cannot know how you want the new loan amount to be repaid.

You can nevertheless create your manual disbursement schedule using the automatic disbursement schedule to save a lot of typing even if you want to work with a manual repayment plan. Go through all the steps (described below) to create a loan with an automatic disbursement schedule. Once you have created the loan, call it up again, revisit *Loan Page 1* and select *Manual* in the *Financing* frame.

If you access the disbursement schedule for editing, you will find the entries that the program has created for the automatic disbursement schedule. However, there is one difference. Once you have re-entered the loan, disbursements will not change with variations of the underlying Capex contract or variations of the exchange rates.

II.1.3.2. The Disbursement Hierarchy - Rank and Percent of Gap Loans to finance the Gap of the Cash Flow from Operations

This paragraph describes the disbursement hierarchy that underlies the *Rank* and *Percent of Gap* financing methods. Both methods form a subgroup of the automatic disbursement methods. While disbursements under the options *Total Capex*, *Site*, *Buildings*, *Equipment* and *Pre-Production* are decided exogenously (outside of the financing model as a result of negotiations with contractors), disbursements under the *Rank* and *Percent of Gap* options are calculated endogenously and serve to close the financing gap from operations that remains after other financing instruments have been exhausted (non rank loans, bond, applied cash surplus), and before the company makes use of certain limited recourse instruments.

Disbursement Hierarchy

- (1) Free Cash Flow from Operations
- (2) + Paid in Equity
- (3) + Sweep
- (4) = **Cash Flow before Bond**
- (5) Cash Flow before Bond
- (6) + Bond (Money Inflows)
- (6) = **Cash Flow after Bond**
- (7) Cash Flow after Bond
- (7) + Loan Disbursements (not from Rank nor Percent of Gap)
- (8) = **Cash Flow after Loans (no Rank nor Percent of Gap)**

If the Cash flow remains negative, add surplus cash

- (9) Cash Flow after Loans (not Rank nor Percent of Gap)
- (9) + Surplus Cash used to close Fin. Gap (see Ch. Cash Account)
- (10) = **Cash Flow after Surplus Cash**

If the Cash flow remains negative (financing gap), add disbursements of the loans governed by rank up to the maximum amount of each loan

- (11) + Loan Rank 1 Disbursements Rank

- (12) + Loan Rank 2 Disbursements Rank

 (13) + Loan Rank 1 Disbursements Ranking
 (14) = **Cash Flow after Loan Disbursements Rank**

If the Cash flow remains negative

- (15) + Loan 1 Disbursements Percent of Gap
 (16) + Loan 2 Disbursements Percent of Gap

 (17) + Loan 1 Disbursements Percent of Gap
 (18) = **Cash Flow after Loan Disbursements Percent of Gap**

II. 1.3.3. Rank

The option *Rank* allows you to draw down a loan up to its loan maximum and to use these funds to close the financing gap from operations according to the rank of the loans, starting with rank 1 (one). If you select the option *Rank*, the boxes

Maximum Amount and **Maximum Interest** pop up.

Write the maximum amount in units of the loan currency that you want to disburse into the *Maximum Amount* box.

For example, write 10000 if you want to disburse up to 10000 currency units during the disbursement period to close a financing gap.

Write the maximum amount of interest in units of the loan currency up to which you want to capitalize interest into the *Maximum Interest* box.

For example, if you want to capitalize up to 1000 currency units, write 1000.

The total potential loan amount is equal to the *Maximum Amount* (of principal) and the *Maximum Interest* (to be capitalized). Whether the total potential loan amount is disbursed or not, depends on the financing gap. The loan is only utilized up to and according to the financing gap during the loan disbursement period. Commitment fee is payable on the total loan amount.

Rank Draw down

Select the rank you want to assign to the loan. Loans (with the rank feature) are drawn down according to their rank position. The loan with the rank 1 (one) is drawn down first. The loan with rank 2 (two) is drawn down next. If you use only one of the up to six loans with the option *Rank*, this

loan is automatically assigned rank 1 (one). If you use more than one loan with the rank feature, you need to assign these loans higher ranks. The program allows you to change ranks. If you delete a loan that has a rank, loans with higher ranks are automatically moved down one rank position.

For example: You have three loans that have ranks 1, 2 and 3. You delete rank 2. The former loan with rank 3 is now assigned rank 2.

II.1.3.4. Percent of Gap

The option *Percent of Gap* allows you to use a loan to finance a percentage of the financing gap left after you have used all the *rank loans*. If you select the option *Percent of Gap*, the box

% of Financing Gap to close appears.

Write the percentage of the gap that you want to close with the loan into the *% of Financing Gap to close* box. The program does not allow you to finance more than 100 percent of the gap. Funds are only disbursed, if a financing gap exists.

For example, if you want to use a loan to close 20 percent of the financing gap, write 20 into the *% of Financing Gap to close* box.

If you use this *Percentage of Gap* option and if you want to close the whole gap, you must ensure that the loans finance the gap completely (i.e. the numbers entered into the *% of Financing Gap to close* box must add up to 100 percent.). You could also choose to close less than 100 percent of the gap. In that case you must ensure that the loans finance the percentage of the gap you want to close (i.e. the numbers entered into the *Percentage of Financing Gap to close* must add up to the percentage that you want to close).

II.1.3.5 What about Payment of Interest and Principal?

So far, we have discussed how to close the financing gap of the Cash Flow from Operations. However, other outflows of cash have not yet been accounted for. These are the payments of interest and principal of loans and limited recourse instruments. As a result, there may be a financing gap caused by these payments of interests and principal that still needs to be closed. PROFINTOOLS PROJECT FINANCE gives you a tool to close such a gap. If you have already used all other instruments (such as non Rank or non Percent of Gap general-purpose loans) you can close the remaining gap by using loans disbursed according to their rank or as a percentage of the gap.

The program allows you to select which of the following cash flows should be at least zero or positive during a user determined time period:

Cash flow after Debt Service

Cash flow after DSRA + fill DSRA
 Cash flow after Interest on DSRA
 Cash flow after Draw-down of Standby Construction
 Cash flow after Draw down of Standby Repayment
 Cash flow after Interest on Standby Construction
 Cash flow after Interest on Standby Repayment
 Cash flow after deferred Variable Costs
 Cash flow after Interest deferred Variable Costs
 Cash flow after deferred Fees (Off-taker)
 Cash flow for the Month (after Interest deferred Off-taker)

For that feature to work you must

1. select at least for one loan either the *Rank* or the *Percent of Gap* financing option and
2. ensure that the Maximum Amount of the loan or loans is big enough to close the gap and, in case of the *Percent of Gap* option you must further ensure that the loans finance the gap completely (since you want the selected Cash Flow account to be at least zero or positive).
3. set the disbursement periods to cover the time slice that you want the cash flow to be zero or positive.

The Entry form Financing Gap

You find the entry fields that allow you to close a gap caused inter alia by payments of interest and principal on the entry form *Financing Gap*. To get started, click on *Loans* on the general menu and on *Close Financing Gap* on the drop-down menu.

Close Gap

Select the gap you want to close. You find in the listbox the cash flow options for the different cash flows to be at least zero listed above (starting with the *Cash flow after Debt Service*). The options are self-explanatory except for *Cash flow after DSRA + fill DSRA*. If you select this option, the program will disburse funds out of the loans that disburse according to the *Rank* or *Percent of Gap* features until the debt reserve accounts are filled to their required levels (if you finance 100 percent of the gap).

First and Last Months

Select the first and last month of the time line that you want loan funds under the *Rank* or *Percent of Gap* option to be disbursed to close a financing gap caused, inter alia, by debt service payments.

Circularities

If your loan disbursements are inter alia a function of interest and principal payments for your loans, you have created a circularity. The program prevents this by walking through the cash flow line selected to be at least zero or positive (for example the *Cash flow after Debt Service*). If it finds a negative cash flow during a period, it subtracts that number from the Cash flow (i.e. adds it to the gap to be closed). In other words, the program increases the gap to be financed by the absolute value of the negative Cash flow.

Number of Iterations

Select the number of iterations that the program should make to come up with a solution. If you use a too small number of iterations, the program might overshoot or not close the gap completely.

Caveat: The reiteration algorithm runs every time you leave a form. This can increase runtimes substantially. While you make other entries you should set the number of iterations to zero. Only towards the end of your analysis you might want to make a precise run with ten or more iterations.

II.1.3.5. The Disbursement Hierarchy - Rank and Percent of Gap Loans to finance the Gap of various Cash Flows.

If the user opts to close a possible financing gap caused by payment of interest and/or principal, the resulting disbursement hierarchy will be identical to the one listed in III.3.2., up to the use of rank loans, but it will differ afterwards because of the need to account for the additional gap to be closed.

If the Cash flow after interest and principal is negative, the program subtracts negative cash flow amounts according to the selection, increasing thereby the financing gap (negative flows) to be financed. Through a number of user-determined iterations, the program defines the total gap to be financed and disburses the *Rank and Percent of Gap* loans accordingly.

Disbursement Hierarchy

- (1) Free Cash flow
- (2) + Paid in Equity
- (3) + Sweep
- (4) = Cash flow before Bond

(5 to 13 as above).....

- (14) = Cash Flow after Surplus Cash

If the Cash flow remains negative

- (10') = Cash flow after Surplus Cash
- (11') - Selected Cash Flow Gap after Interest and Principal
- (12') = Cash Flow minus selected Cash Flow Gap after Interest and

Principal

If the Cash Flow minus selected cash flow gap after Interest and Principal is negative, add the loan amounts disbursed as *Rank*, and you get the Cash Flow after Loan Disbursement Rank.

(13') + Loan 1 Disbursements Rank
(14') + Loan 2 Disbursements Rank
.....
(15') + Loan j Disbursements Percent of Gap
(16') = **Cash flow after Loan Disbursements Rank**

If the Cash Flow is still negative add the disbursements of *Percent of Gap* loans

(17') + Loan 1 Disbursements Percent of Gap
(18') + Loan 2 Disbursements Percent of Gap
.....
(19') + Loan j Disbursements Percent of Gap
(20') = **Cash flow after Loan Disbursements Percent of Gap**

CHAPTER BOND

PROFITools PROJECT FINANCE - Bond

This chapter introduces the bond as a resource mobilization tool for project finance. PROFITools PROJECT FINANCE allows you to design a standard coupon bond, a zero coupon bond, a revenue bond or a specially customized bond. You can select a fixed interest rate (coupon bond) or a variable or manually designed interest pattern (revenue or specially customized bond) to model market sensitive bonds.

To get started, click on *Loans* on the general menu and on *Bond* on the drop-down menu. The program loads the entry form.

I. General Bond Features

Standard Coupon Bond

A standard coupon bond pays fixed interest at interest payment dates.

Zero Coupon Bond

A zero coupon bond pays no interest.

Revenue Bond

A revenue bond pays interest if the issuer earns a profit. The conditions that trigger an interest payment may vary. The program default mechanism triggers interest payments if the company was profitable since the last interest payment date. If you need a different interest payment condition check the *User defined Interest* box and code your condition into the spreadsheet (see checklist at the end of this chapter). The revenue bond can be combined with fixed, variable or manually designed interest rates.

Customized Bond

The customized bond allows you to design market sensitive interest payments. This type is identical to the revenue bond, except that interest is paid regardless of the earnings situation.

Issue - Project Month

The *Issue - Project Month* is the month, the project company receives the money inflows from the bond. The program assumes that the funds are received at the start of the month.

Maturity Month

At the end of the *Maturity - Project Month* all debt has to be retired. The *Maturity - Project Month* is the last month of the retirement period.

Par Value

The *Par Value* is equal to the face value of the debt.

For example, write 100, if your bond has a face value of 100.

Money received

The program assumes that the total amount mobilized by the bond is received in the *Issue - Project Month*. Write the total amount into the *Money received* box.

For example, if 90 currency units are received, write 90.

Premium and Discount

If the face interest rate is equal to the market interest rate of a comparable bond, the bond is sold at par value and the liability generated in the balance sheet is equal to the face value of the bond. What happens, if the face interest is higher or lower than the market interest rate?

Premium - Carrying Value

If the face interest rate is higher than the market interest rate, the bond usually sells at a premium. The program treats the premium as interest earned in advance. The premium is amortized at interest payment dates until the maturity month and serves to reduce the interest expense. The program adds in the balance sheet the unamortized premium to the face value of the bond to derive the bond's current carrying value.

Discount - Carrying Value

If the face interest rate is lower than the market interest rate, the bond sells at a discount. The program treats the discount as incremental interest expense and amortizes the expense over the bond's lifetime at interest payment dates. In the balance sheet the unamortized discount is subtracted from the face value of the bond to get the bond's current carrying value.

Manual Amortization

Select the option *Manual Amortization* if you want to create manually a different amortization pattern. Then leave the form, click on *Model* and then on *Show Me*. On the form click on *Enter/Edit Formulas*. Go to row 21144 to enter the balance sheet position and to row 21146 to enter the amounts that you want to enter into the income statement.

II. Interest and Fees

Select the option you want to use. (You only have a choice in case of a revenue or customized bond).

Option Fixed Interest Rate

If you select the option *Fixed Interest Rate*, the graphical user interface shows you the *Interest p.a. - %* box. Write the interest rate per year into the *Interest p.a. - %* box. Example: if the interest rate is 5.5% write 5.5.

Option Variable Interest Rate

If you select the option *Variable Interest Rate*, you will see the listbox *Select Variable Interest Rate* and the entry box *Basis points (+) or (-)*.

Select the variable interest rate and write the number of basis points you want to add or subtract from the variable interest rate.

For example, if you want to add 1.4% (140 basis points) to the variable interest rate write 140 into the *Basis points (+) or (-)* entry box.

If you want to subtract 0.9% (90 basis points), write -90 (minus 90) into the box.

Option Manual Interest Rate

If you select the *Manual Interest Rate* you will see neither the *Interest p.a. - %* nor the *Basis points (+)* or *(-)* entry boxes. Instead, the command button *Enter Bond Interest Rate* pops up.

Enter Bond Interest Rate

Press the *Edit Account Interest Rate* button to gain access to the loan interest rate time series. The program presents you an entry form where you can enter an annual interest rate at roll-over dates. This allows you to manually generate any conceivable interest rate pattern. Press *Return* once you are satisfied.

Interest Calculation Methods

Select the *Interest Calculation Method* (click, the listbox should turn **blue**). Two methods are available. With the *Standard* method the year has 365 days. If you choose the *Euro* method, the year has 360 days in resulting in a higher effective interest rate.

Number of Months Interest is paid in Arrears

Select the number of months that interest is paid in arrears.

If the project company issues a zero coupon bond, no interest is paid. However, you might still want to pay interest on reserves set aside for bond retirement (see below). Interest on the reserve is paid monthly but the variable interest rate on the reserve is updated only at the interest payment dates determined by the number of months interest is paid in arrears on the bond.

User defined Interest on Bond

If you check the *User defined Interest on Bond* box, you overrule the built-in interest generation. This might be necessary in the case of a revenue bond if you want to attach special conditions to the payment of interest. If you want to refer to the automatically generated interest time series, you should still fill out the interest entry fields.

To enter custom made interest payments or formulas, leave the form and click on *Model* on the general menu. Select *Edit / Enter formulas*. Go to row 21137.

Fees

Write the amount to be paid as fees by the project company in relation to the bond into the *Fees* box. Fees are payable in the *Issue - Project Month*. Fees should only be entered if they are not part of the

discount.

III. Retirement

First Retirement Month

Select the first month of the retirement period (the last month is defined by the *Maturity - Project Month* defined above).

Automatic Retirement Plan

If you select the option *Automatic Retirement Plan*, PROFINTOOLS PROJECT FINANCE retires debt at par value at retirement dates. The debt retirement is spread linearly over the retirement period.

Retirement Frequency

Select the *Retirement Frequency* at which you want the debt to be automatically retired (monthly, quarterly, half-yearly or yearly).

Manual Retirement Plan

If you select the option *Manual Retirement Plan*, the button *Edit Retirement Plan* pops up.

Edit Retirement Plan

Press the *Edit Retirement Plan* button to get access to the retirement entry field. In the left column you can enter the price as percent of the par value at which you want to retire the bond. In the middle column enter the percentage of total debt you want to retire in that month (the right column accumulates the percentage of debt retired so far).

Example 1: assume the bond has a par value of 100. You can buy back the bond for 90 currency units or 90 percent of the par value. Write 90 into the left column for the respective project month.

Example 2: assume again that the bond has a par value of 100. You have stipulated a call price of 80 in the prospectus and the market price for the bond is 90. You want to retire equal amounts of debt through the call provision and through buying bonds in the market. As you have two prices for retirement, enter 85, the weighted average (as equal amounts are retired through call and market buy

backs $(80 + 90)/2 = 85$.

The difference between the par value and the retirement price times the amount of debt retired shows up in the income statement as capital gain or loss. **Caveat:** you might have capital gains or losses and forex gains or losses in the same period. The program automatically takes care of forex and capital gains or losses.

IV. Reserve

IV.1. Reserve Amounts

PROFINTOOLS PROJECT FINANCE allows you to create a reserve for retirement payments.

Reserve Principal

Check the *Reserve Principal* box if you want the program to set aside funds for retirement of principal. The program generates monthly step-ups between retirement dates.

Reserve Interest

Check the *Reserve Interest* box, if you want to create a reserve for interest payments. The program generates monthly step-ups.

User defined Reserve

Check the *User defined Reserve* box, if you want to overrule the built-in reserve generating mechanism. To manually enter reserve accounts or formulas, go to *Model* on the general menu, select *Show Me* on the drop-down menu and click on *Edit / Enter Formulas*. Then go to row 21139.

IV.2. Interest Payments on Reserve

Select in the frame *Interest on Reserve* the option you want to use:

Option Fixed Interest Rate - Reserve

If you select the option *Fixed Interest Rate - Reserve*, the graphical user interface shows you the

Interest p.a. - % box. Write the interest rate per year into the *Interest p.a. - %* box. Example: if the interest rate is 5.5% write 5.5 .

Option Variable Interest Rate - Reserve

If you select the option *Variable Interest Rate*, you will see the listbox *Select Variable Interest Rate* and the entry box *Basis points (+) or (-)*.

Select the variable interest rate and write the number of basis points you want to add or subtract from the project wide variable interest rate.

For example, if you want to add 1.4% (140 basis points) to the variable interest rate write 140 into the *Basis points (+) or (-)* entry box.

If you want to subtract 0.9% (90 basis points, write -90 (minus 90) into the box.

Option Manual Interest Rate - Reserve

If you select *Manual Interest Rate* you will see neither the *Interest p.a. - %* nor the *Basis points (+) or (-)* entry boxes. Instead, the command button *Edit Reserve Interest Rate* pops up.

Edit Reserve Interest Rate

Press the *Edit Reserve Interest Rate* command button to gain access to the bond interest rate reserve time series. The program presents you an entry form where you can enter an annual interest rate at bond interest payment rollover dates. This allows you to manually generate any conceivable interest rate pattern. Press *Return* once you are satisfied.

Interest Calculation Methods

Select the *Interest Calculation Method* (click, listbox should turn **blue**). Two methods are available. With method *Standard* the year has 365 days. If you choose the *Euro* method the year has 360 days resulting in a higher de facto interest rate.

IV. Debt Conversion

You can convert bond debt into equity during every retirement month. To convert debt, select the retirement month, retire the desired amount of debt and pay in the desired amount of equity.

Conversion at Par Value

Select *Manual Retirement Plan* and press the *Edit Retirement Plan* button. Retire the converted debt at 100 percent of the par value. Then go to form *Paid in Capital and Dividends* (click first on *Equity* on the general menu) and pay in the amount that you needed for the retirement. **Caveat** - while the retirement is made in units of the bond currency, the capital is paid in units of numéraire.

Conversion under or over Par Value

Conversion under or over par value works like the conversion at par value. The only difference is that the project company faces a capital gain or loss as a result of the conversion rate. For instance, a conversion of debt into equity under par value - say at 50 % of the face value of the bond - occurs if you exchange 100 units of debt for 50 units of equity, assuming that the bond was issued in units of numéraire. You have to pay in 50 units of equity and the company realizes a capital gain of 50.

Checklist: General Bond Features

- 1 Select *Loans* on the general menu and *Bond* on the drop down menu.
- 2 Select the *Bond Currency*. (Click, the selection should turn **blue**).
- 3 Select the bond type (standard coupon, zero coupon, revenue or customized bond).
- 4 Select the *Issue - Project Month*.
- 5 Select the *Maturity - Project Month*.
- 6 Write the par value in units of the bond currency into the *Par Value* box.
- 7 Write the total amount received into the box *Money received*.

Checklist: Establish Interest Rates and Fees for Bond

- 8 Select the interest type according to the bond type (revenue or customized bond: fixed, variable or manual interest rate; standard coupon bond: fixed interest rate; zero coupon bond: none).
- 9 In case of option *Variable Interest Rate*, select the interest rate and enter basis points. Write fixed interest rate if you have opted for fixed rate. If you have selected *Manual Interest Rate*, press *Edit Bond Interest Rate and Return*.
- 10 Select the interest calculation method (*Standard* or *Euro*).
- 11 Write the fees paid in relation with the bond into the *Fees* box. Do not enter fees if the fees are deducted as part of the discount.

Checklist: Establish a Retirement Plan

- 12 Select the *First Retirement Month*.
- 13 Select either option *Automatic Retirement Plan* or *Manual Retirement plan*.

- 14 In case of *Automatic Retirement Plan* select the *Retirement Frequency* (monthly, quarterly, half-yearly or yearly). If you select *Manual Retirement Plan*, press the button *Edit Retirement Plan*.

Enter the price paid for the amount retired as percentage of the par value for the respective retirement months in the left column and the percentage of the total debt retired in the middle column. Press *Return* once you are done.

Checklist: Establish a Reserve for Retirement and Interest Payments

- 15 Select the reserve interest type (fixed, variable or manual reserve interest rate).
16 In case of option *Variable Interest Rate*, select the interest rate and enter basis points. Write fixed interest rate if you have opted for fixed rate. If you have selected *Manual Interest Rate*, press *Edit Bond Reserve Interest Rate* and *Return*, once you are done.
17 Select the interest calculation method (*Standard* or *Euro*).
18 Press *Enter*.

Checklist: User defined Interest on Bond

- 1 Click on *Model* on the general menu and on the drop-down menu click on *Show Me*. Press *Edit / Enter Formulas*.
2 Enter interest / interest formulas into row 21137 in units of numéraire.
3 Enter user defined amortization into row 21144 in units of numéraire.

Checklist: User defined Reserve

- 1 Click on *Model* on the general menu and on *Show Me* on the drop-down menu. Press *Edit / Enter Formulas*.
2 Go to row 21139 and enter reserve / reserve formulas in units of numéraire.

If you manually design the interest or reserve and issue the bond in a currency other than the numéraire, you have to calculate the foreign exchange gains or losses yourself. Enter the monthly forex gains or losses into row 21146.

CHAPTER Cash Account

PROFINTOOLS PROJECT FINANCE - Cash Account

This chapter deals with the cash account. Part I shows how surplus cash in the cash account can be used to close an existing financing gap. Part II introduces two interest earning accounts that the project company can use to deposit surplus cash.

I. Use Surplus Cash

PROFINTOOLS PROJECT FINANCE allows you to use surplus cash (cash that sits in the cash account) to close a financing gap. You can freely determine the time line during which you want to use surplus cash. You can also determine the percentage of cash that you want to apply to close a financing gap. Cash is only applied, if cash is available.

To get started, go to *Loans* on the general menu and to *Close Financing Gap* on the drop-down menu.

First Surplus Month

Select the month during which you want to start the use of surplus cash to close a financing gap.

Last Surplus Month

Select the last month during which you want to use surplus cash to close a financing gap.

You have two options to generate the surplus cash time series:

Automatic Surplus Cash Financing

If you opt for *Automatic Surplus Cash Financing*, the text box *% of Surplus Cash used for Financing* appears.

% of Surplus Cash used for Financing

Write the percentage of cash you want to use to close a financing gap into the *% of Surplus Cash used for Financing* box.

For example, if you want to use 50 percent, write 50.

If you opt for **Manual Surplus Financing**, the command button

Manual Surplus Cash Financing pops up.

Press this button and enter for each project month during the surplus financing period the percentage of available cash you want to use. Once you are satisfied, press *Return*.

Checklist: Use Surplus Cash to close a Financing Gap

- 1 Click on *Loans* on the General menu and on *Close Financing Gap* on the drop down menu. The program loads the entry form.
- 2 In the frame *Surplus Cash* on the right select the first and last month during which you want to use surplus cash to close a possible financing gap.
- 3 Opt either for *Automatic Surplus Cash Financing* or for *Manual Surplus Cash Financing*.
- 4 In case of *Automatic Surplus Cash Financing* write percentage of cash that you want to use into the *% - Percent of Cash used for Financing* box. Then press the button *Edit Surplus Cash*. The program shows you an entry form. Enter for each month during the surplus cash financing period the desired percentage. Then press *Return* and then *Enter*.

Part II - Interest Earning Accounts / Money Deposit

PROFITTOOLS PROJECT FINANCE allows you to deposit surplus cash (cash that sits unused in the cash account) into two interest earning accounts. You can freely determine the time line during which you want to deposit surplus cash. The interest earning accounts offer similar functionality as general-purpose loans (except for manual deposit (disbursement) and withdrawal (repayment) schedules. The major difference is: with interest earning accounts the project company deposits and does not borrow funds.

To get started, click on *Loans* on the general menu and on *Manage Surplus Cash* on the drop down menu. The program loads the form.

To generate an interest earning account takes three steps:

- 1 Create a withdrawal plan (frame *Surplus Cash Withdrawal*).
- 2 Design the deposit schedule for the interest earning account (frame *Surplus Cash Deposit Schedule*).
- 3 Establish interest rates (frame *Interest on Account*).

Interest Earning Account Name

Write the *Name* of the deposit into the *Interest Earning Account* name box.

Account Currency

Select the *Account Currency* (click, selected currency should turn **blue**).

II.1. Create a Withdrawal Plan

Start Withdrawal Phase

Regardless of the number of months that interest is paid in arrears, the month you enter as start of the withdrawal phase will be an interest payment date. In the case of an annuity, all later interest payment dates will coincide with the principal payment dates. In the case of withdrawal in equal installments, the next interest payment date will be the number of months that interest is paid in arrears after this date. If you want interest and principal payment dates to always coincide, you should set the number of months interest is paid in arrears equal to the number of months between installments.

II.2. Design a Deposit Schedule

First Deposit Month and Last Deposit Month

Select first and last deposit month.

Options Maximum Amount or Percent of Cash Surplus

If you select the option *Maximum Amount*, the program deposits surplus cash into the interest earning account up to a *Maximum Amount* that you can freely enter (interest capitalized is not included into the *Maximum Amount* i.e. comes on top of it). In case of the option *Percent of Cash Surplus* a chosen percentage of surplus cash is deposited into the IAC. The program applies available surplus cash first to the IAC(s) that follow the *Maximum Amount* option with the IAC entered first receiving cash first up to its *Maximum Amount*. The remaining cash surplus is available for IAC(s) that are governed by the *Percent of Cash Surplus* option.

II.3. Establish Interest Rates

Interest Types

PROFITools PROJECT FINANCE gives you three options:

- Fixed Interest Rate

- Variable Interest Rate
- Manual Interest Rate

Select the option you want to use. However, there is one restriction: You cannot combine a variable or manual interest rate with the annuity withdrawal method.

Option Fixed Interest Rate

If you select the option *Fixed Interest Rate*, the graphical user interface shows you the *Interest p.a. - %* box. Write the interest rate per year into the *Interest p.a. - %* box. Example: if the interest rate is 5.5% write 5.5.

Option Variable Interest Rate

If you select the option *Variable Interest Rate*, you will see the listbox *Select Variable Interest Rate* and the entry box *Basis points (+) or (-)*.

Select the variable interest rate and write the number of basis points you want to add or subtract from the variable interest rate.

For example, if you want to add 1.4% (140 basis points) to the variable interest rate write 140 into the *Basis points (+) or (-)* entry box.

If you want to subtract 0.9% (90 basis points), write -90 (minus 90) into the box.

Option Manual Interest Rate

If you select the *Manual Interest Rate* you will not see neither the *Interest p.a. - %* or the *Basis points (+) or (-)* entry boxes. Instead, the command button *Enter Account Interest Rate* pops up.

Enter Account Interest Rate

Press the *Edit Account Interest Rate* button to gain access to the loan interest rate time series. The program presents you an entry form where you can enter an annual interest rate for every project month. This allows you to manually generate any conceivable interest rate pattern. Press *Return* once you are satisfied.

Interest Calculation Methods

Select the *Interest Calculation Method* (click, the listbox should turn **blue**). Two methods are available. With the *Standard* method the year has 365 days. If you choose the *Euro* method, the year has 360 days in resulting in a higher defacto interest rate.

Number of Months Interest is paid in Arrears

Select the number of months that interest is paid in arrears.

Capitalize Interest

Write the percentage of interest to be capitalized into the *% of Interest Capitalized* entry box. If 50 percent is to be capitalized, write 50. The interest rate is necessary, but not sufficient to ensure that interest is capitalized. You also have to determine the time period during which interest is to be capitalized. PROFINTOOLS PROJECT FINANCE allows you to capitalize interest up to and including the *First Withdrawal Month*. (Interest is capitalized on top of the *Maximum Amount* – see above) Before you can select the last month during which interest is to be capitalized the withdrawal schedule has to be established (see below Checklist: Create a Withdrawal Plan).

Checklist: Establish an Interest Earning Account

- 1 Select *Loans* on the general and *Interest earning Accounts* on the drop-down menu.
- 2 Write the name of the interest earning account into the *Interest Earning Account Name* box and select the *Account Currency* (click, the selection should turn **blue**).

Checklist: Create a Withdrawal Plan

- 3 Go to the *Surplus Cash Withdrawal* frame on the right and select a withdrawal method (*Equal Installments* or *Annuity*). Click, selection should turn **blue**. Caveat: You cannot combine an annuity with a variable or a manual interest rate.
- 4 Select the *Month First Withdrawal* and the *Number of Installments*.
- 5 Select the number of months between installments. The program tells you when the last withdrawal will take place.
- 6 If you want to capitalize interest, select the *Last Month Capitalization of Interest*.

Checklist: Design a Deposit Schedule

- 7 Go to the frame *Surplus Cash Deposit Schedule* (in the middle of the form).
- 8 Select the *First* and *Last Deposit Month*.

Checklist: Establish Interest Rates

- 9 Select the interest type (fixed, variable or manual. Note, with an annuity you can only enter a fixed interest rate).
- 10 In case of option *Variable Interest Rate* enter basis points. Write fixed interest rate if you have opted for *Fixed Interest Rate*. If you have selected *Manual Interest Rate*, press *Edit Account Interest Rate* and *Return*, once you are done.
- 11 Press *Enter*.

The foregoing disclosure has been set forth merely to illustrate the invention and is not intended to be limiting. Since modifications of the disclosed embodiments incorporating the spirit and substance of the invention may occur to persons skilled in the art, the invention should be construed to include everything within the scope of the appended claims and equivalents thereof.